

20 December 1979

IRANIAN CRISIS ECONOMIC BRIEFIran: Overcoming Financing Obstacles and Diversifying Assets

Letters of credit (L/C) are again being issued for exports to Iran by many banks of the industrial world, although off-setting Iranian deposits are often required to cover the L/Cs. LDC banks still are reluctant to provide financing but are expected to soon follow the lead. [ ]

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Arranging delivery of imports is still a problem because many shippers fear being trapped at Iranian ports. Overland freight from the USSR is reported operating at a slow pace because of the backlog of rail cars at the border. [ ]

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In a move to diversify assets, the Iranian Central Bank (CBI) purchased 105,000 ounces (\$50 million) of gold in recent weeks, deposited \$245 million in short-term accounts with the Central Bank of Algeria, and \$30 million in pounds sterling with the Central Bank of Libya. [ ]

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Japan: Stepping Back from Oil Deals but Looking to Trade Opportunities

Japanese trading companies have rejected the National Iranian Oil Company's (NIOC) opening proposal for signing 1980 contracts as too costly. Negotiations have been postponed until after the OPEC meetings; the Japanese representatives returned to Japan for consultations. NIOC offered the Japanese and two other firms -- BP and Royal Dutch Shell -- a three-tier pricing system that would yield Iran an average of \$35 per barrel. After consulting with home offices and the Minister of International Trade and Industry (MITI), the Japanese companies apparently decided to form a common front with the British firms. We have no indication how long they will hold out if Iran steps up pressure on Tokyo. [ ]

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Japanese companies have sold at losses 6 million of the 20 million barrels of oil purchased from Iran in recent weeks. Some reports indicate that MITI has ordered the sale of another 4 million barrels or so. Japanese Foreign Minister Okita reports Japan's goal to hold oil imports from Iran to an average of about 600,000 b/d -- roughly equal to [ ]

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the level Japan was receiving from Iran through the major oil companies and direct deals. This level is also the amount that Japan asked to purchase from Iran during October talks on the resumption of construction at the Bandar Khomeini Petrochemical complex. Japan apparently feels bound to the 600,000 b/d level both by need and commitment [REDACTED]

On the financing scene, Japanese banks continue to act cautiously regarding Iranian financing. Trade financing arrangements are handled mostly through Japanese or Iranian banks with letters of credit issued by individual banks generally limited to levels of Iranian deposits in those banks. A senior Ministry of Finance (MOF) official told the US Financial Attache in Tokyo that Japan had not issued guidance to banks on initiating cross-default actions although officials at the MOF claim they are concerned about the broad implications of such actions. [REDACTED]

Western Europe: Little Support for Economic Sanctions Outside of UN Auspices

West European governments continue to hedge their response to US requests to implement economic measures against Iran outside a broad multinational basis, such as under a UN Security Council resolution. Although British

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Prime Minister Thatcher vowed that London would enforce UN-approved sanctions against Iran, we have no evidence that the British have sofar implemented specific economic measures in response to US requests. However, Britain, France, West Germany, and Italy supposedly have halted new export credits and, except for Italy, have stopped shipping military equipment. [REDACTED]

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Despite an Italian pledge to prohibit exports of military equipment to Iran, the Italian helicopter producer, Agusta notified Iran that the first of 10 CH47 helicopters will be ready for pickup in Italy the week of 30 December. Rome has continually expressed fears that failure to deliver merchandise already paid for could lead to Iranian reprisals against Italian citizens still in Iran. [REDACTED]

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Bonn is generally unwilling to comply directly with US requests for economic actions. The federal government will not urge banks to activate cross-default clauses in loan agreements with Iran. Moreover, Bonn will not require "punctual" payment of principal and interest on Iranian loans, but will continue its "usual and accepted" practice of permitting minor delays in some cases. We do not yet have the results of the 19 December cabinet meeting, which undoubtedly addressed US requests for action. [REDACTED]

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The West German oil firm VEBA apparently refused Iranian demands to pay for a November shipment of oil in deutsche marks because the original letter of credit was demanded in dollars. VEBA was told to pay for all future shipments of Iranian oil in deutsche marks; VEBA claims that compliance with the request will depend on future negotiations. [REDACTED]

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